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TO AMEMBASSY ABIDJAN

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E.O. 11652:GDS

TAGS: EFIN, IBRD, IMF

SUBJECT:U.S. POSITION ON IBRD THIRD WINDOW PROPOSAL AND
IMF TRUST FUND PROPOSAL

REF: S. ABIDJAN 4241 2. STATE A-2666

1. RE PARA 10 REFTTEL, FOLLOWING IS BRIEFING MATERIAL FOR
YOUR USE IN DISCUSSING U.S. POSITION IN IBRD THIRD WINDOW
PROPOSAL WITH MINISTER OF ECONOMY AND FINANCE BEDIE. IN-
FORMATION IS ALSO INCLUDED ON IMF TRUST FUND PROPOSAL AND
THE "SPECIAL ACCOUNT" PROPOSAL WHICH COULD PROVIDE ADDI-
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TIONAL FINANCING TO LOW-INCOME COUNTRIES.

2. THE "THIRD WINDOW" REFERS TO A PROPOSED NEW LENDING FACILITY OF THE WORLD BANK WHICH WOULD EXTEND LOANS TO DEVELOPING COUNTRIES ON TERMS INTERMEDIATE BETWEEN THOSE NOW CHARGED BY THE BANK AND BY IDA, THROUGH THE ESTABLISHMENT OF AN INTEREST SUBSIDIZATION FUND. THE PROPOSAL, AS DISCUSSED BY THE BANK BOARD, WOULD INCLUDE:

A. SCALE - THIRD WINDOW IBRD COMMITMENTS OF APPROXIMATELY DOLS. 1 BILLION IN FY-1976 ARE ENVISAGED. THESE COMMITMENTS WOULD BE IN ADDITION TO PRESENTLY PLANNED IBRD AND IDA LENDING PROGRAMS OF DOLS. 4,450 MILLION AND DOLS. 1,625 RESPECTIVELY FOR A GRANT TOTAL OF APPROXIMATELY DOLS. 7 BILLION NEXT FISCAL YEAR.

B. DURATION - CURRENT PROPOSAL IS FOR A PILOT SCHEME OF ONE YEAR. THE PROPOSAL IMPLIES, HOWEVER, THE BANK'S INTENTION TO ESTABLISH A THIRD WINDOW ON A CONTINUING BASIS.

C. BENEFICIARY COUNTRIES - COUNTRIES WITH 1972 PER CAPITA INCOME OF UP TO U.S. DOLLARS 375 WHICH MEET MINIMUM CREDITWORTHINESS AND PERFORMANCE STANDARDS WOULD BE ELIGIBLE FOR THIRD WINDOW LOANS. HOWEVER, COUNTRIES WITH HIGHER PER CAPITA INCOMES ARE NOT NECESSARILY PRECLUDED, AND COUNTRIES WITH LOWER LEVELS ARE NOT ASSURED OF SUCH ASSISTANCE. REALLOCATION OF BOTH IDA CREDITS AND STANDARD IBRD LOANS COULD BE ARRANGED TO BENEFIT SUBSTANTIALLY THOSE COUNTRIES WHICH COULD NOT QUALIFY FOR THIRD WINDOW LOANS.

D. TERMS - THIRD WINDOW LOANS WOULD HAVE A STANDARD INTEREST RATE OF FOUR PERCENTAGE POINTS BELOW THE IBRD RATE. FOR PROJECT LENDING, WHICH IS EXPECTED TO ACCOUNT FOR BULK OF THIRD WINDOW COMMITMENTS, MATURITIES WOULD APPROXIMATE 25 YEARS WITH A SEVEN-YEAR GRACE PERIOD.

E. INTEREST SUBSIDY ARRANGEMENTS - CONTRIBUTIONS OF APPROXIMATELY U.S. DOLLARS 225 MILLION IN INVESTABLE FORM WOULD BE REQUIRED TO FINANCE FOUR PERCENT INTEREST SUBSIDY LIMITED OFFICIAL USE

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OVER LIFE OF THE LOANS.

3. U.S. POSITION - U.S. DOES NOT OBJECT TO BANK MANAGEMENT'S CONTINUING TO PROPOSE A ONE YEAR "THIRD WINDOW" FACILITY. WE AND OTHER NATIONS ARE CONCERNED ABOUT THE IMPACT ON IDA AND BELIEVE THAT LENDING FROM THE FACILITY MUST NOT DAMAGE THE CREDIT STANDING OF THE BANK. AT THIS TIME, THE U.S. DOES NOT PLAN TO CONTRIBUTE TO THE THIRD WINDOW FACILITY. FOR PURPOSE OF DISCUSSION WITH BEDIE,

EMBASSY IS INSTRUCTED TO REFER TO DETAILED PRESENTATION OF U.S. POSITION ON THIRD WINDOW CONTAINED IN STATE AIRGRAM 2666 OF APRIL 17, 1975. THIS STILL REFLECTS U.S. POSITION.

4. WITTEVEEN INTEREST SUBSIDY OR "SPECIAL ACCOUNT". IN JANUARY THE INTERIM COMMITTEE ENDORSED A FUND PROPOSAL FOR A "SPECIAL ACCOUNT" WHICH WOULD SUBSIDIZE INTEREST PAYABLE BY MSA NATIONS ON DRAWINGS FROM THE 1975 IMF OIL FACILITY. OBJECTIVE WOULD BE TO LOWER EFFECTIVE INTEREST BURDEN ON MSAS BY ABOUT FIVE PERCENTAGE POINTS. THE FUND SUBSEQUENTLY PROPOSED THAT CONTRIBUTIONS TO THE SUBSIDY ACCOUNT BE DIVIDED ABOUT EQUALLY BETWEEN THE INDUSTRIALIZED COUNTRIES AND OIL EXPORTING COUNTRIES. THIS IS PROVING TO BE A STICKING POINT. OIL EXPORTERS HAVE INDICATED THAT WHILE THEY WOULD BE WILLING TO CONTRIBUTE, THEY FEEL THAT THIS DIVISION IS UNFAIR, AND BELIEVE INDUSTRIALIZED COUNTRIES SHOULD BEAR A LARGER PORTION OF THE BURDEN. ON THE OTHER HAND, SEVERAL INDUSTRIALIZED COUNTRIES HAVE INDICATED THAT THIS WOULD BE A FAIR DIVISION, AND HAVE INDICATED INTEREST IN CONTRIBUTING. U.S. DOES NOT EXPECT TO CONTRIBUTE TO THIS SUBSIDY ACCOUNT UNLESS PERHAPS THE USE OF IMF-HELD GOLD WOULD BE AUTHORIZED.

5. TRUST FUND IN THE IMF - U.S. HAS PROPOSED THAT AN IMF-ADMINISTERED TRUST FUND BE ESTABLISHED TO CHANNEL HIGHLY CONCESSIONAL B/P ASSISTANCE TO POOREST DEVELOPING COUNTRIES HARD HIT BY THE INCREASE IN OIL PRICES. SOURCE OF FUNDS WOULD BE CONTRIBUTIONS FROM COUNTRIES ABLE TO CONTRIBUTE, ESPECIALLY MAJOR OIL EXPORTING NATIONS, PLUS THE USE OF A PORTION OF IMF-HELD GOLD. (THESE GOLD STOCKS ARE CURRENTLY VALUED AT THE OFFICIAL PRICE OF DOLS. 42.22 AN OUNCE OR ROUGHLY ONE-FOURTH MARKET PRICE.) FUNDING FOR LIMITED OFFICIAL USE

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FIRST YEAR WAS ENVISAGED AT 1-1/2 TO 2 BILLION DOLLARS.

6. WE BELIEVE THAT THE TRUST FUND HAS SEVERAL ADVANTAGES:

-- IT WOULD BE MORE FLEXIBLE AND WOULD EXIST BEYOND LIFE OF OIL FACILITY (SCHEDULED TO TERMINATE EARLY IN 1976).

-- GOLD SALES PROVIDE A POTENTIAL FOR SUBSTANTIAL FINANCING FOR MSA DEFICITS OVER SEVERAL YEARS TIME.

-- IT WOULD AVOID SETTING A PRECEDENT OF A SPECIAL SUBSIDY ON IMF LENDING.

7. NEVERTHELESS, THE U.S. HAS AGREED TO THE "SPECIAL ACCOUNT" PROPOSAL IN PRINCIPLE. WE BELIEVE THE TWO PRO-

POSALS COULD BE VIEWED AS COMPLEMENTARY, WITH, FOR EXAMPLE,
OIL FACILITY ACCOUNT PHASING OUT AFTER THIS YEAR AND THE
TRUST FUND TAKING OVER AFTER THAT.

8. THE IMF/IBRD "DEVELOPMENT COMMITTEE" IS SCHEDULED TO
MEET PARIS JUNE 12, 13 TO DISCUSS THESE AND OTHER RELATED
ISSUES. INGERSOLL

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